Luxury brands fail to make ethical grade

By Vanessa Friedman in London
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Some of the world's biggest luxury conglomerates have failed to make the grade in a ranking of ethical and environmental performance.

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A report released on Thursday by the WWF, the conservation group, entitled "Deeper Luxury", gives Bulgari and Tod's, the Italian jewellery and accessory companies, a grade F for their "environmental, social and governance performance and reputation" in 2006 of the 10 largest publicly traded luxury conglomerates.

Their French, Swiss and US competitors do not fare much better. PPR, which owns Gucci Group, received a D, as did Swatch and Richmont, the Swiss watch and jewellery groups.

The highest grade – a C+ – was awarded to Hermés, L'Oréal, and LVMH.

There is no established methodology for assessing the industry's performance in the ethical and environmental area. To arrive at the grades, WWF collected data from analysts Ethical Investment Research Service (EIRIS), which uses company reports and information to track performance, which it may follow up with a questionnaire; and Covalence, a company that tracks public perception of a company through news reports.

The report's co-author Anthony Kleanthous, a senior policy adviser at WWF, said most of the luxury companies did well in some areas but were weak in others, hence the low overall scores.

PPR, for example, owns Puma, which is strong on employment practices owing to the sweat shop scandals in the sports wear industry in the 1990s, but does little regarding carbon emissions. Tod's poor showing was due to its failure to respond fully to EIRIS questionnaires. The company declined to comment yesterday.

"Honestly, I was surprised none got more than a C+," said Mr Kleanthous. "I think it comes down to the fact that luxury companies do not consider their products to be particularly damaging to the environment and there is a certain complacency in regards to the explosive growth of new markets. They just don't think people are going to be asking the questions. But there has been a paradigm shift and that is just not true."

According to a recent issue of the New York-based Luxury Institute's Wealth Report, in a survey of 950 high-income American adults, "57 per cent ... say they would pay higher prices for a brand that is recognised for socially responsible practices" and "70 per cent ... seek out brands with superior environmental records".

"It is true this has not been a focus of PPR in the past, though that has now changed," said Laurent Claquin, PPR's senior vice-president for CSR, a department inaugurated only last September.

Mr Claquin said the department was created because PPR's chief executive, Francois-Henri Pinault, wanted to "signal his desire to do something serious in these areas", not because of the WWF report.

Mr Kleanthous said Richemont took steps in a similar direction last summer, releasing its first CSR report. The group declined to comment on the WWF publication.

The WWF report was inspired by "a desire to look at an industry that has a heavy impact on culture and the way people think", said Mr Kleanthous. "We are not trying to criticise these companies but to make a general point: responsible business practices can be a value driver, but they need to be systematically embedded in the DNA of a company," he added. "Comparison can be a powerful motivation to change."

Though Tiffany, Coach, and Swatch did not return calls for comment, a spokesperson for L'Oréal said: "We welcome all reports from respected organisations in this field as they are a useful tool for progress."

The spokesperson noted that L'Oréal already published its own sustainability report and was listed on the FTSE4 good sustainability index.

Hugh Morrison, a spokesman for LVMH, said, "We have invested a great deal in understanding the issues and developing strategies to be best in class – we certainly expect future surveys to show our continued progress in this field."

Everyone wants an A.

Ranking of luxury corporate groups

Group	Covalence	EIRIS	Total	Rank	Grade
L'Oréal	38.5	30.0	68.5	1	C+
Hermès	50.0	17.9	67.9	2	C+
LVMH	37.2	29.9	67.1	3	C+
Coach	50.0	16.2	66.2	4	C
Tiffany	47.8	11.9	59.7	5	D+
Swatch	38.9	13.8	52.7	6	D
PPR	21.3	30.3	51.5	7	D
Richemont	35.5	15.2	50.6	8	D
Bulgari	20.0	17.6	37.6	9	F
Tods	25.0	9.9	34.9	10	F

Methodology (provided by WWF)

All companies are used to being ranked on business performance. Such a benchmarking exercise can help individual business people better understand their relative performance, and identify areas for improvement. In recent years, more companies have begun to be ranked on their environmental, social and governance (ESG) performance, especially by investment analysts who provide information to asset managers and asset owners that consider these issues material to financial performance, or to the wider interests of their investors.

The largest publicly-traded luxury conglomerates all regularly report their financial performance and are therefore subject to scrutiny, as in this report. The top ten publicly-traded luxury conglomerates or groups were analysed and ranked on their performance in the fields of environment, society and governance.

These companies are:

● **Bulgari**: The fast-growing Italian jeweller and luxury goods retailer, founded in Rome in 1884. Bulgari's heritage is in jewellery, but it now also produces and licenses watches, handbags, fragrances, accessories and hotels.

● **Coach, Inc**: The US-based leather goods company that started life in a loft in Manhattan in 1941. Coach is famous for handbags, luggage, briefcases, wallets and other accessories.

● **Hermés**: A leather goods, fashion and perfume company based in Paris. It produces ready-to-wear fashion, home décor, jewellery, luggage, fragrances and saddles.

● **L'Oréal**: The world's largest cosmetics and beauty company is a French multinational comprising four operating groups, one of which is its luxury products division with brands such as Lancôme, Helena Rubenstein and Kiehl's.

● **LVMH**: The world's largest luxury goods conglomerate, created after mergers brought together Moët et Chandon, Hennessy and Louis Vuitton. LVMH now owns more than fifty iconic brands, including TAG Heuer, Fendi, Marc Jacobs, Guerlain, Kenzo and Givenchy.

● **PPR**: A French multinational holding company specialising in luxury brands and retail. It owns the Gucci group, which also controls Yves Saint Laurent, Sergio Rossi, Bottega Veneta, Alexander McQueen, Stella McCartney and Balenciaga.

● **Compagnie Financière Richemont SA**: This Swiss luxury goods conglomerate was founded in 1988 by the South African entrepreneur, Anton Rupert. It has four main business areas: jewellery, watches, pens and clothing. Among its brands are Cartier, Mont Blanc, Chloé and International Watch Co (IWC).

● **The Swatch Group Ltd**: Since its creation in 1982, the Swatch Group – the world's largest watch company, based in Switzerland – has accelerated its acquisition of Swiss luxury brands, including Breguet, Blancpain, Omega, Rado, Longines, Tissot, Certina and Pierre Balmain.

● **Tiffany & Co**: As well as diamonds and jewellery, US company Tiffany & Co sells watches, silverware, china, crystal, stationery, fragrances and accessories.

● **Tods SpA**: The shoe and leather goods manufacturer, created in Italy in 1978 by Diego della Valle, was listed on the Milan Stock Exchange in 2000 and owns Tods, Hogan, Fay and Roger Vivier.

These companies, despite being leaders in the luxury sector, feature little in ethical rankings because of the limited nature of their ESG reporting. Not a single luxury conglomerate appears in investment analyst Innovest's list of the 100 most responsible corporations of 2007, despite the fact that 23 make discretionary consumer items – more than any other type of product or service. LVMH, Hermès, L'Oréal and Swatch were the only luxury conglomerates listed in the FTSE4Good index in 2006, but LVMH was expelled for supply chain issues in March 2007. Appearance on these indices indicates that a company has a conscious strategic approach to the responsibilities associated with its core activities, and is communicating its efforts to external audiences. With trillions of dollars now invested according to ethical guidelines, the lack of luxury conglomerate performance on these indices will become more financially relevant.

It is in this context of limited ESG disclosure that we have prepared the ranking for this report. In the absence of data from all the companies using standardised protocols and systems of verification and audit, our ranking relies on two categories of information: first, what companies themselves report to the ethical investment community about their ESG performance; and second, what the media and non-governmental organisations have been saying about them. The data for each was compiled in 2007 for performance during 2006.

For the first category, data was sourced from Ethical Investment Research Service (EIRIS). A non-profit, independent research organisation, EIRIS has been conducting social, environmental and ethical research on publicly listed companies since 1983. It gathers information directly from companies through questionnaires, and augments this by analysing company public documents including annual reports, websites and specific environmental, social and sustainability reports. The data is collected for 50 criteria, grouped in four areas:

- environment;
- human rights;
- corporate governance; and
- stakeholder relations.

Criteria include topics such as equal opportunity and environmental policies, against which companies are graded from poor to exceptional. WWF turned these into numerical scores, with each criterion given equal weight in making up the total score. (In the absence of a stakeholder process to determine the relative importance of different issues, any weighting of the criteria would be arbitrary and not credible. However, we did correct bias introduced by the unequal numbers of sub-criteria within each of the four principal areas. This ensures that each area accounted for 25% of the 50 points available for this half of the index – a maximum for each, then, of 12.5 points.)

For the second category, data was sourced from Covalence, a Geneva-based research house. Covalence documents thousands of positive and negative news stories about companies in English, French, Spanish, Italian and German, then codes and synthesises them into rankings. Its 45 criteria cover working conditions and the impacts of production, products and institutions. Covalence's search generated 512 news stories which were analysed and coded as either positive or negative. WWF weighted the result so that each company obtained a comparable score out of 50.

The scores for EIRIS and Covalence were then added, to create a total maximum possible score of 100. This creates a ranking of the self-reported performance and public reputation on corporate performance on environmental, social and governance issues. Each company's score out of 100 is expressed in our ranking as a grade between A+ (best) and F (worst) according to the scale below. The results are shown in the table above.

Scale used

Grade	Range
A+	90 - 100
A	85 - 89
A-	80 - 84
B+	77 - 79
B	73 - 76
B-	70 - 72
C+	67 - 69
C	63 - 66
C-	60 - 62
D+	55 - 59
D	50 - 54
F	0 - 49

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